BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2002-5-G - ORDER NO. 2002-747

OCTOBER 28, 2002

IN RE: Annual Review of South Carolina Electric and Gas Company's Purchased Gas Adjustments and Gas Purchasing Policies.	))))	ORDER RULING ON PGA AND GAS PURCHASING PRACTICES

This matter comes before the Public Service Commission of South Carolina (the Commission) for the Annual Review of the Purchased Gas Adjustment (PGA) and the Gas Purchasing Policies of South Carolina Electric & Gas Company (SCE&G or the Company). In addition, pursuant to Order No. 94-1117, dated October 27, 1994, in Docket No. 94-008-G, the Commission considered the collection of environmental clean-up costs (ECC) for the period under review.

By letter, the Commission's Executive Director instructed the Company to publish a prepared notice concerning the Annual Review of the PGA and the Gas Purchasing Policies, one time, in a newspaper of general circulation in the area affected by the review. The Notice indicated the nature of the review and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceeding. The Company was instructed to directly notify all of its customers affected by the review of the PGA. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate). A hearing on the Annual Review was held on October 17, 2002, at

10:30 AM in the offices of the Commission with the Honorable Mignon Clyburn, Chairman, presiding. SCE&G was represented by B. Craig Collins, Esquire and Francis P. Mood, Esquire. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. The Commission Staff was represented by F. David Butler, General Counsel.

SCE&G presented the testimony of W. Keller Kissam, and Harry L. Scruggs. The Consumer Advocate presented no testimony. The Commission Staff presented the testimony of Roy H. Barnette and Brent L. Sires.

W. Keller Kissam, Vice President of Gas Operations for the Company testified. Kissam testified as to the natural gas purchasing policies of SCE&G and the importance of the Industrial Sales Program (ISP). Kissam also offered testimony with regard to the Company's recovery of costs related to the environmental liability resulting from the cleanup of properties formerly used for manufactured gas plants (MGP).

Kissam noted that SCE&G contracts with South Carolina Pipeline Corporation (SCPC) for all of its natural gas supplies. Volumes are delivered from SCPC to SCE&G at 192 metered delivery points. Pursuant to Commission-approved tariffs DS-1 and DISS-1, SCE&G has contracted with SCPC for a firm contract demand of 276,495 DTS per day. Kissam states that SCE&G relies on SCPC as its natural gas merchant for several reasons: 1) SCE&G does not own a pipeline system that connects SCE&G's 192 metered delivery points in its distribution system. The SCPC system provides this connection. 2) Operation of the SCPC system is backed by much experience, and SCPC has a thoroughly knowledgeable Staff.

Kissam testified that the Industrial Sales Program allows the Company to compete with alternate fuels in providing service to various interruptible customers. These customers could have switched to alternate fuels had it not been for the ISP program. According to Kissam, without these competitive sales, more fixed costs would be borne by the firm customers.

Kissam states that SCE&G's purchasing practices were prudent, because they effectively balance reliability of supply and price. SCE&G's reliance on SCPC as a merchant affords SCE&G's customers reduced administrative costs while increasing its market power and system reliability in an energy market that changes daily. Further, the ISP program, according to Kissam, allows SCE&G to continue to retain interruptible load and reduce costs system-wide.

The environmental collection factor was also discussed by Kissam. SCE&G seeks no change in that factor at this time.

Kissam also requests approval of a new PGA factor of 72.788 cents per therm. Kissam testified that this factor is necessary, given the forecasted commodity price of natural gas based on the New York Mercantile Exchange (NYMEX) and under-collections incurred during the review period. Kissam further stated that during the review period, the price of commodity gas delivered to SCE&G was higher than the price forecasted for the twelve months previously, which resulted in an under-collection of $30,808,069. The Company notes that the under-collection was prudently-incurred, however, the Company only proposes to recover 20% of it at this time, or $6,161,614, and defer the balance of $24,646,455 for recovery in future proceedings as necessary.

Harry L. Scruggs, Senior Rate and Regulatory Specialist in the Gas Rate Department of SCE&G testified as to the projected base cost of gas factor. Scruggs provided historical data for the review period September 2001 through August 2002, as well as providing computations for the projected cost of gas per therm for the future period September 2002 through October 2003.

With regard to the environmental cleanup cost factor, the Company collected a total of $5,934,682 from firm and interruptible sales customers and transportation customers during the review period. The cumulative amount amortized through August 31, 2002 is $25,039,104, according to Mr. Scruggs. No change in the MGP-ECC factor is requested in this proceeding.

Considering the cost of gas data for the historical period under review, the Company, according to Scruggs, will have an actual under-collection of $30,808,069 as of October 31, 2002.

As Scruggs states, the historic cost of gas is used as the starting point to project future gas costs. This cost is adjusted for known and measurable changes for the forecasted period September 2002 through October 2003. Much of the projection for the commodity cost of gas was affected by NYMEX index prices.

When all calculations are completed, SCE&G recommends a change in the cost of gas from 59.646 cents per therm to 72.788 cents per therm.

Roy Barnette and Brent Sires of the Commission Staff testified. Barnette summarized the Audit Staff's findings, and stated that Staff had verified SCE&G's gas costs and Environmental Cleanup Costs for the twelve months ended August 2002. According to

Barnette, the under-collection for the twelve months ended August 2002, including the projected months of September and October 2002 is $31,425,044. The cumulative net under-collection is $30,808,069. SCE&G's total environmental liability is $57,000,000. After deductions of $25,039,104 for amortization and collections, and $12,388,698 from insurance commitments, the outstanding balance is $19,572,198. Barnette also testified that SCE&G was correctly recovering its gas costs pursuant to its approved tariffs. See prefiled testimony and exhibits of Barnette.

Brent Sires also testified for the Commission Staff. Sires recounted the history of the gas cost recovery procedures approved by this Commission. Sires notes that a combination of historical data and projected data allows the Company to determine the appropriate base cost of gas.

Sires notes that his observations of SCE&G's gas purchasing policies indicate that the Company receives adequate supplies of firm gas to meet its captive customers' needs. Sires reviewed the pipeline and propane-air supplies utilized by SCE&G. Sires pointed out that, based on SCPC's years of experience and expertise in pipeline operations, SCPC can adequately supply SCE&G with its present and future gas needs. Further, Sires concluded that SCE&G receives adequate supplies of firm gas to meet its captive customers' needs and is prudent with regard to its purchase of gas supplies from SCPC. Sires also noted that in light of the many changes which continue to take place which affect the securing and transportation of gas, the Company should continue its on-going program to ensure that its gas supply is consistent with its customers' needs and to ensure that supply efficiency is maintained at reasonable costs. Sires also opined that the operation of the Company's ISP program should continue, since this mechanism allows SCE&G to compete with alternate fuels.

Sires also described the factors contributing to the Company's under-recovery during the review period. The first contributor was the impact resulting from hedging losses. During the review period SCE&G had forecasted hedging losses approximately 1.1 million less than actual. The second contributing factor was the recovery of fixed demand cost. The review period was significantly warmer than normal resulting in less sales volume to spread the fixed capacity cost over. The third factor was actual commodity cost being higher than forecasted. All of these factors contributed to the Company's under-recovery in this case, according to Sires. Sires also reiterated the testimony of Company witness Scruggs, who emphasized that the Company is only asking for 20% of the total under-recovery experienced, or $6,161,614 of the total under-recovery of $30,808,069.

FINDINGS AND CONCLUSIONS

Based on the evidence in the record, the Commission makes the following findings and conclusions:

1) The gas purchasing practices of SCE&G are prudent for the period under review, and SCE&G has properly recovered its gas cost pursuant to the terms and conditions of the Company's approved tariff.

The direct testimony of Company witness Kissam, and Staff witness Sires specifically support this conclusion.

Kissam notes that SCE&G purchases its gas from SCPC under tariffs approved by this Commission. Further, the operation of the SCPC system is backed by much experience among the various members of its knowledgeable Staff.

Staff witness Sires testified that SCE&G's gas purchasing policies provided adequate supplies of firm gas to meet its captive customers' needs at reasonable cost, and that he expected this to be true for the present and for the future.

2) The base cost of gas shall be 72.788 cents per therm effective and beginning with the first billing cycle in November 2002.

The direct testimony of SCE&G witness Scruggs supports this conclusion. Scruggs provided historical data for the review period September 2001 through August 2002, as well as provided computations for the projected cost of gas per therm for the future period September 2002 through October 2003. After all calculations are reviewed, the conclusion is that the base cost of gas should be increased to 72.788 cents per therm.

3) The Company shall continue to add a factor of $0.03 per therm in the PGA for environmental clean-up costs during the next review period. This was discussed in the testimony of Company witnesses Scruggs and Kissam, and Commission Staff witness Barnette.

4) The current industrial sales program shall be continued. This was virtually uncontested. The program was discussed in the testimony of Company witness Kissam and Staff witness Sires.

5) The Consumer Advocate's Motion that SCE&G be required to negotiate for firm transportation service from South Carolina Pipeline Corporation is denied. However,

SCE&G should be required to provide the Commission with quarterly updates related to its review of the benefits of diversifying the Company's natural gas supply. The filing of these quarterly updates will commence with the first quarter of 2003.

The tariffs and rate schedules shall be filed reflecting the findings herein within five (5) days of the receipt of this Order by the Company.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION.

Mignon L. Clyburn, Chairman

ATTEST:

Gary E. Walsh, Executive Director

(SEAL)